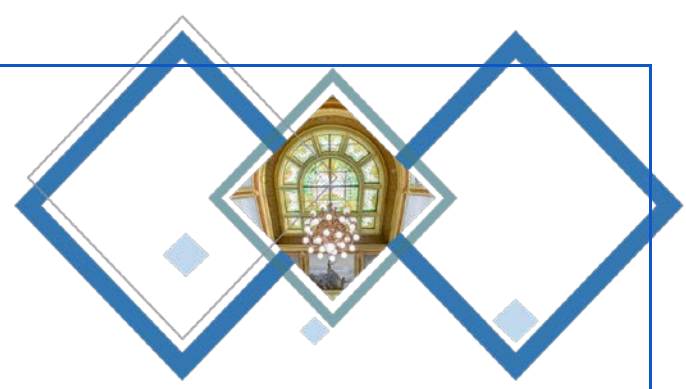


January 17, 2018

Environmental Quality Council
Sonja Nowakowski



SENATE JOINT RESOLUTION 5: COAL IN MONTANA; FISCAL IMPACTS

INTRODUCTION

All but a fraction of the coal mined in Montana is converted to electricity, either in-state, out-of-state, or out-of-country. Coal's contribution to U.S. electrical generation, however, continues to decline. In recent years, about three-quarters of Montana's coal production has been shipped by rail to out-of-state utilities and, increasingly, foreign nations. The remaining quarter is consumed in Montana.

There are six coal mines in Montana located in Big Horn, Musselshell, Richland, and Rosebud Counties. Westmoreland Mining, LLC, controls three of the mines. In 2015 Montana was the sixth largest coal producer in the U.S. at 42 million tons mined. The majority of mining in Montana occurs in the Powder River Basin. The price of Montana coal averaged \$17.44 per ton at the mine in 2015, up from the previous 20 years when it was near \$10.00 per ton. The price of Montana and Wyoming coal is far below the U.S. average of \$31.83, largely because of transportation costs and the lower heat content of the coal.¹

Following national trends, production decreased in Montana from about 45 million tons in 2008 to 32 million tons in 2016. Weak economic markets for coal both in the U.S. and internationally contributed to the decline. Coal-fired power generation is in decline, as inexpensive natural gas and cheaper renewables fuel more electricity production. In addition, air quality regulations have accelerated. The future of Montana coal economics depends in large part on greenhouse gas regulations, use of coal-fired generation in the U.S., natural gas prices, and coal export markets.² Colstrip's future also will be dependent on policies enacted in Washington and Oregon concerning the use of coal-fired generation.

About 2,289 megawatts of coal-fired generating capacity exists in Montana, or 37 percent of the state's nameplate generating capacity, which is down from about 55 percent in 2015. A number of coal-fired power plants in the U.S. have closed or announced planned retirements since 2010. A total of 101 gigawatts (101,000 megawatts) in the U.S. have either retired or announced plans to retire in the coming years.³ In Montana, the J.E. Corette coal-fired power plant in Billings ceased operation in 2015. Colstrip Units 1 and 2 will close no later than July 2022.

Taxes on coal, despite decreases from historic highs, remain a significant source of revenue. Severance and gross proceeds taxes generated more than \$81 million to state and local governments in FY

¹ "Understanding Energy in Montana: A Guide to Electricity, Natural Gas, Coal, Petroleum, and Renewable Energy Produced and Consumed in Montana," Jeff Blend, Montana Department of Environmental Quality draft report and updates before Energy and Telecommunications Interim Committee, January 2016.

² Ibid.

³ Ibid.

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2016, according to the Department of Revenue (DOR). In addition to severance taxes, gross proceeds taxes are also paid to support the counties where mines are located. The DOR provided an overview of taxes paid by coal mines and power plants, which is outlined below.

Senate Joint Resolution No. 5 and the work plan adopted by the Environmental Quality Council request a review of the coal industry in Montana and the impacts of changes in coal production. At the January 2018 meeting, the EQC will be introduced to the subject and will receive an update on the taxation of coal in Montana and how those revenues are distributed.

COAL MINES

Cloud Peak Energy, Spring Creek Mine, Big Horn County

Sub-bituminous -- surface

Coal mined from Spring Creek is shipped primarily to electric utilities and industrial customers in the Northwest, Midwest, Northeast and southwest, and various Canadian provinces and exported to Asian utility customers via the Westshore terminal in British Columbia, Canada.

Ten-year Average Annual Production = 16.9 million tons

BTU/lb = 9,283 Btu

(2017) Full-time Employees = 230

Western Energy Co., Rosebud Mine, Rosebud County

Sub-bituminous -- surface

The Rosebud Mine supplies most of its production to the four-unit Colstrip Power Station that is adjacent and was specifically designed to burn Rosebud coal. Coal is sold under two long-term contracts. Western is a subsidiary of Westmoreland.

Ten-year Average Annual Production = 10 million tons

BTU/lb = 8,550 Btu

(2017) Full-time Employees = 407

Signal Peak Energy, Signal Peak Mine, Musselshell County

Bituminous – underground

Signal Peak is Montana's only underground coal mine. Coal is recovered using longwall mining equipment. Global Coal Sales markets coal from Signal Peak mine in the Bull Mountains near Roundup. Most is shipped to Asia.

Seven-year Average Annual Production = 6.4 million tons

BTU/lb = 10,300 Btu

(2017) Full-time Employees = 240

Westmoreland Resources, Absaloka Mine, Big Horn County

Sub-bituminous – surface

The Absaloka Mine is located near Hardin and the Crow Indian Reservation. The coal reserves are leased from the Crow. The Absaloka Mine was developed to supply Powder River Basin coal to a group of Midwestern utilities, including Xcel Energy's Sherburne County Station near Minneapolis, Minnesota. It has also sold coal to other upper Midwest utilities.

Ten-year Average Annual Production = 5.4 million tons

BTU/lb = 8,570 Btu

(2017) Full-time Employees = 131

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Lighthouse Resources Inc., Decker Mine, Big Horn County

Sub-bituminous -- surface

Coal from the Decker Mine is sold to the US domestic market. Along with supplying the existing domestic market, Lighthouse Resources is exporting coal from Decker to the international market.

Ten-year Average Annual Production = 4.3 million tons

BTU/lb = 9,500 Btu

(2017) Full-time Employees = 132

Westmoreland Savage Corp., Savage Mine, Richland County

Lignite – surface

The Savage Mine is an 874-acre mine located on the Montana-North Dakota border. The Savage Mine has a full-requirements contract with the 57-megawatt Lewis & Clark Station, which is owned by Montana-Dakota Utilities, and a longstanding annual supply relationship with a sugar beet refinery near Sidney.

Ten-year Average Annual Production = 330,000 tons

BTU/lb = 6,500 Btu

(2017) Full-time Employees = 13

COAL-FIRED POWER PLANTS

Colstrip Generating Station

Colstrip has a combined peak output of 2,094 megawatts and is the second-largest coal-fired generating facility west of the Mississippi. Colstrip includes four separate coal-fired generating units, collectively owned by Puget Sound Energy, Talen Energy, Portland General Electric, Avista Corporation, PacifiCorp, and NorthWestern Energy. Puget Sound Energy is the largest owner, owning 50 percent of Units 1 and 2 and 25 percent of Units 3 and 4. Units 1 and 2 each have 307 megawatts of net generating capacity. Units 3 and 4 each have 740 megawatts of net generating capacity. The facility is adjacent to the Rosebud coal mine, which supplies the coal. Units 1 and 2 are scheduled to close no later than July 2022.

(2017) Full-time Employees = 360

Hardin Generating Station

The Hardin Generating Station is located north of Hardin and has 116 megawatts of net generating capacity. It is owned by Rocky Mountain Power, a subsidiary of Centennial Power, which in turn is a subsidiary of Bcent Power Company. The plant is operated by Colorado Energy Management. Colorado Energy is owned by Heorot Power Holdings, a subsidiary of Beowulf Energy. The plant opened in 2006. The Absaloka Mine near Hardin supplies the coal. Electricity from the Hardin plant has been sold to Powerex Corp. of Canada. Rocky Mountain Power recently announced it may close the facility in early 2018 unless purchased by another company.

(2017) Full-time Employees = 30

Lewis and Clark Station

Montana-Dakota Utilities operates the Lewis and Clark Station consisting of a coal-fired boiler capable of burning coal or natural gas and associated equipment for electricity. It has 44 megawatts of net generating capacity and is located near Sidney. Lewis and Clark Station annually consumes more than 300,000 tons of lignite supplied from the nearby Savage Mine.

(2017) Full-time Employees = 34

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Rosebud Power Plant

Colstrip Energy Limited Partnership is a 38-megawatt waste coal-fired power project located in Rosebud County north of Colstrip. The plant began commercial operation in 1990. Energy produced is sold to NorthWestern Energy under a Power Purchase Agreement that expires in June 2025 (sold by former Montana Power Company). CELP is licensed as a qualifying small power production facility under the Public Utility Regulatory Policy Act. Fuel for the plant is primarily waste coal from the nearby Rosebud Mine.

(2017) Full-time Employees = 30

TAXES PAID

State Severance Tax

The coal severance tax is imposed on all coal mined in Montana, pursuant to 15-35-103, MCA. Producers of more than 50,000 tons of coal per year pay a quarterly severance tax on all production in excess of 20,000 tons. Producers of less than 50,000 tons per year are exempt from the tax. Tax rates depend on the heat content (BTUs) of the coal and the method of extraction. The value of coal to which the severance tax is applied is the "contract sales price". The contract sales price is the price of coal extracted and prepared for shipment "free on board", less the amount required to pay production taxes. Production taxes include the state severance tax, the resource indemnity trust and ground water assessment tax, local gross proceeds taxes, federal reclamation taxes, and the federal Black Lung Tax. The contract sales price includes royalties up to \$0.15 per ton paid to federal and state governments or Indian tribes and all royalties paid to other mineral rights owners. The DOR collects the tax. The tax is distributed pursuant to 15-35-108, MCA.

FY 2016: \$60.4 million

Federal Royalty (49% distributed to Montana)

Under the federal Mineral Leasing Act of 1920, the federal government collects royalties on every ton of coal that is mined on federal lands located in the state. The Interior Department's Office of Natural Resources Revenue forwards about half of the royalty revenues to Montana. In Montana, money paid to the state is deposited in the state general fund, with 25% being deposited in a mineral impact account dedicated to local governments. The tax is distributed pursuant to 17-3-240, MCA.

FY 2016: \$20.9 million

Gross Proceeds Tax

A statewide 5% yearly flat tax is imposed on coal gross proceeds, pursuant to 15-23-703, MCA. State and local governments do not levy or assess any mills against the reported gross proceeds of coal. The gross proceeds of coal are determined by multiplying the number of tons produced by the contract sales price. One-half of the contract sales price of coal sold by a coal producer who extracts less than 50,000 tons of coal in a calendar year is exempt from taxation. The tax is collected by the local county treasurer. The revenue is proportionally distributed to the appropriate taxing jurisdictions in which production occurred based on the total number of mills levied in fiscal year 1990.

FY 2016: \$20.8 million

Resource Indemnity Trust and Ground Water Assessment Tax

The resource indemnity trust fund was created to indemnify the citizens of Montana for the loss of long-term value resulting from the depletion of natural resources and for environmental damage caused by mineral development. All businesses that mine or extract minerals within Montana are subject to the annual tax on the percentage of the gross value of the

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product, pursuant to 15-38-104, MCA. The tax rate is 0.4% for coal. The trust was to be funded with proceeds from the resource indemnity tax until the trust balance reached \$100 million, which occurred in December 2001. Deposits from the resource indemnity tax ceased at that point, and the balance has remained at \$100 million. Income from the trust fund is used to fund environmental and natural resource programs.

FY 2016: \$1.8 million

Electrical Energy Producer's License Tax

An electrical energy license tax is imposed on each person or organization engaged in generating, manufacturing, or producing electrical energy in Montana (15-51-101, MCA). The tax of \$0.0002 per kilowatt-hour (or \$0.20 per megawatt-hour) is levied against all electrical energy produced within the state. A deduction is allowed for "actual and necessary" energy use by the plant for the production of the energy. The revenue goes to the general fund. A total of \$4.31 million in taxes was due for FY 2016, and coal-related companies had a tax liability of \$3.6 million, which comprised 83.5 percent of total taxes due. DOR records don't provide a breakdown into energy types, but the DOR used an estimate of the share of energy generated in Montana that comes from coal.

FY 2016: \$2.62 million

Wholesale Energy Generation Tax

The Legislature, grappling with the changes brought about by the restructuring of Montana's electric industry in 1997, reduced the property tax rate applied to electrical generation facilities and imposed a replacement tax called a wholesale energy transaction tax (Title 15, chapter 72, part 1, MCA). In 1999, the Legislature reduced the tax rate on electrical generation property from 12% to 6%. To partly replace the reduction, a wholesale energy transaction tax was developed. The tax is imposed at a rate of 0.015 cents per kilowatt-hour on electricity that is transmitted by a transmission service provider in the state. The revenue from the tax is deposited into the state general fund. The total tax liability for 2016 of coal-related companies was \$3.4 million. The companies comprised 93.9 percent, or \$3.2 million, of the tax liability. The DOR used an estimate of energy generated using coal.

FY 2016: \$1.8 million

Corporate Income Tax and Individual Income Tax

Montana's corporate income tax is a franchise tax paid by corporations doing business in Montana. The rate of the tax is 6.75% and is calculated on net income earned in Montana. Corporate income tax revenue goes to the general fund. Due to confidentiality concerns, the DOR was unable to release corporate income tax. The tax information included in this report also does not consider the income taxes paid by employees of the coal mines or coal-fired power plants.

Property Tax

In Montana, there are 14 different classes of property. Coal mined in Montana is subject to a gross proceeds tax. However, some property owned by mines or coal-fired generating units likely also provides some level of property tax in the form of Class 4 property, which includes industrial land improvements and Class 8 property, including property used for business purposes, and potentially other classes. *The DOR estimated the total property tax paid by the companies that own coal mines and coal-fired power plants. The estimates, therefore, include property that is not coal-related. NorthWestern Energy, for example, shows its total property tax in 2016 at \$136 million. NorthWestern owns only 30% of Colstrip Unit 4. They show \$3.6 million in taxes to Rosebud County, where the plant is located. Avista reports \$9.3 million in property taxes in Montana, but that also includes their ownership of the Noxon Rapids Dam.

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NorthWestern Energy, Portland General Electric, Puget Sound Energy, Avista Corporation, and PacificCorp – all owners of Colstrip Units 1-4 – also pay property taxes based on their ownership of the Colstrip transmission lines. In the event that Colstrip Units 1-4 close, use of the transmission lines for the export of energy will be a significant piece of the tax puzzle.

FY 2016: \$316 million (total for utilities and mines) FY 2016: \$5 million (total for only mines)

Taxes Paid by Coal Mines and Coal-Fired Power Plants in Montana			
Tax	Coal Total (FY 2016)	Distribution	% of Total Attributed to Coal
Coal Severance Tax	\$60,359,000	(See Attached)	100% (See Attached)
Federal Mineral Royalties	\$20,889,000	75% general fund 25% local governments	74%
Coal Gross Proceeds Tax	\$20,757,000	Proportionally to appropriate tax jurisdiction	100%
Resource Indemnity Trust and Ground Water Assessment Tax	\$1,796,000	Net earnings and receipts appropriated by the legislature, provided that the fund balance is not less than \$100 million. (See attached)	77%
Electrical Energy Producer's License Tax	\$2,620,000	General fund	61%
Wholesale Energy Generation Tax	\$1,780,000	General fund	52%
Property Tax	\$316,000,000* \$5,000,000 (mines)	Proportionally to appropriate tax jurisdiction	20%
Total	\$424.2 million Less Coal-Fired Generation Property Tax: \$113.2 million		

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